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EXHAUSTION OF RIGHTS IN COPYRIGHT PROTECTED DIGITAL PROPERTY IN THE EUROPEAN UNION LEGISLATION

Bachelor's thesis
Program HAJB08/17 – Law, specialization European and international law

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Tallinn 2023

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ABSTRACT

The doctrine of exhaustion is codified to only apply to tangible objects both in the European Union and the United States in the 20th century. Recent decisions and opinions in the field have begun to question, whether the objectives of copyright are still met without accommodating the doctrine with digitalization. New digital opportunities in producing, distributing and presenting copyrighted works are being invented continuously, which has also allowed for new businesses to form.

CJEU decisions, like the Tom Kabinet case, from the 2010s provide that there is currently no possibility to sell second hand digital copies of eBooks, without infringing copyrights. This stand has been both praised and disapproved, on one other hand providing for a larger monopoly for the stakeholder, but on the other limiting competition and the natural market evolution. It has provided for the increase of licensing agreements, which are not as beneficial to the consumer. Additionally, CJEU decisions somewhat contradict with decisions given in the US, even though both legal systems are fundamentally driven by the WIPO. This work will focus on the issues arising from such inconsistencies and how the technical and legal questions coincide in current case law.

Keywords:
Intellectual Property, Copyright, Doctrine of Exhaustion, Internal Market, Second-hand, Intangible Property, Digital Exhaustion

ABBREVIATIONS

CJEU – Court of Justice of the European Union

CDSM – Copyright Digital Single Market, Directive (EU) 2019/790

DMCA – Digital Millennium Copyright Act

EU – European Union

EUIPO – European Union Intellectual Property Office

SLA – Software License Agreements

TRIPS – The Agreement on Trade-Related Aspects of Intellectual Property Rights

WCT – WIPO Copyright Treaty

WIPO – World Intellectual Property Organization

WPPT – WIPO Performances and Phonograms Treaty

WTO – World Trade Organization

1. Introduction

Copyright protected works, like most other areas of intellectual property, have been severely influenced by digitalization. Innovation and technical measures have enabled new possibilities but have also brought with them new legal questions to tackle.[1] Moreover, these legal questions require appropriate legislation and legal professionals, who can tackle the obstacles in practice. The CJEU 2019 Tom Kabinet case is a good example of how the existing law might be lacking flexibility that could be vital in order to meet the demands of development. This research paper was influenced by the undeniable presence of thousands of copyrighted works as digital copies on digital devices in our everyday lives. These facts lead to the formation of the following research questions. 1) How could the doctrine of exhaustion be applied to copyrights of digital goods and what would this require from legislators and stakeholders? 2) What are the prospects for a concept of digital exhaustion?

This research intends to show how the doctrine of exhaustion is interpreted in digital content situations and whether it meets the objectives of copyright protection. The problem is that currently the transferability of tangible and intangible goods is interpreted differently under the doctrine of exhaustion. This can cause irregular outcomes between states and even cases. This research focuses especially on the current situation and future prospects of eBooks and other digital copies, but less on software. Software is partly excluded, because it is widely researched and additionally falls under the scope of the doctrine of exhaustion. However, in some judgements software and digital copies are considered synonymous.[2]

With the help of opinions of legal scholars, this paper will evaluate whether the European Union could benefit from a new approach of digital exhaustion and propose new directions for EU legislation. By comparing the EU and United States legislations, the research intends to show the international possibilities of copyright protection and find approaches that have achieved good outcomes in digital content cases. The influence of caselaw shall be to evaluate the interpretation of certain specific copyright legislation that has been addressed in courts. The purpose of this research is to identify how the interest of both copyright holders and consumers could be balanced in the increasing amount of digital content and benefit the most from the development of technology.

[1] Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC, *OJ L 130, 17.5.2019,* recital 3
[2] Costa, D. A. (2010-2011). *Vernor v. Autodesk: An Erosion of First Sale Rights*. Rutgers Law Record*,* p. *224*

A large part of European legislation surrounding the matter is sourced from the late 20th century, when digitalization was at a different stage than it is now. The main document in digital contents relating to copyrights in the EU is the Directive 2001/29/EC, which was drafted in 2001 and amended partly in 2017. The topicality arises from the increasing speed of technical and digital development and the influence it has in copyrights. The topicality of the subject could even be at an increase because of new conversations surrounding copyright exhaustion in content created by artificial intelligence.

The Tom Kabinet case raised many opinions and evaluation, voiced mostly on the EU level, taking into account CJEU cases. The case raised questions about the purpose of copyright and the influence of distribution. This research aims to bring the comparison of the EU and US approaches into the conversation, seeing that they both foster a similar doctrine of exhaustion clause. It also aims to weigh the possibility of a digital exhaustion from the perspective of the stakeholder and the legislator.

The research will be consisting of legal research done in comparative and empirical methods. The sources will be drawn from legal literary works in the field, accompanied with journals, mainly from the intellectual property field. Analysis will include EU and US legislation with examples from case laws which have already received their judgements. The case law analysis will also consider the influence and interpretation of current and past legislation. The research will be using qualitative data in order to better understand the decisions of the courts and their relation to each other. The comparison will touch on the similarities in the cases and what they display about EU and US legislation. Cases from US courts were chosen for this research because they have a similar history in intellectual property law and the doctrine of exhaustion as the European Union legislation.

The research will first address intellectual property law in general and establish the current state of copyright protection. Here, the paper introduces the development of the legal framework in both the EU and the US. Then the research goes on to the doctrine of exhaustion, its history and niche. Through case law comparison, the research provides practical basis for the research problem. The comparison of case laws also allows to point out the differences in the country legislations. Finally the paper goes on to evaluate the possibilities in digital exhaustion and how it could be addressed in future research.

2. Intellectual Property Law

The different branches of intellectual property, namely trademarks, patents, copyright, and designs have their individual directives and regulations in the world. Intellectual property rights (IPRs) attempt to upkeep creativity and activity in artistic and innovative fields.[3] On one hand this ensures recognition and compensation to the creators and on the other it enables the development of technology and the preservation of culture and competition.

2.1. History of intellectual property rights

The first international convention was the Paris Convention on the protection of industrial property of 1883. This convention covered the branches of intellectual property that are related to industrial properties, namely trademarks, patents and designs.[4] The first convention in international copyright protection is the Berne Convention for the protection of artistic and literary works. It was originally drafted already in 1886 but has been since renegotiated multiple times to be able to address current matters.[5] The Paris and the Berne conventions led to the establishing of the World Intellectual Property Organization (WIPO), which further established the WIPO Convention. The Paris and Berne Conventions are considered a catalyst of sorts for the establishment of multiple new cross-border contracts for intellectual property law.[6]

International intellectual property law is also governed by the Trade-Related aspects of Intellectual Property law agreement (TRIPS). The TRIPS agreement was used as a guideline in the Uruguay Round negotiations, when creating the US legal framework around IPRs.[7] This large international scope of IPR shows that it has been considered important to enable cross-border trade and equal protection for all parties. The different branches of intellectual property have their individual legal prerequisites for territoriality, but in a very general way these laws can be considered to collaborate well everywhere in the world.

[3] Bux U., Maciejewski M., (2022), *Intellectual, industrial, and commercial property*, European Parliament fact sheets of the European Union, p. 2
[4] Hughes, J. (2012). *Short history of intellectual property in relation to copyright*. Cardozo Law Review, 33(4), p.1296
[5] Article 2 (6), Berne Convention for the protection of artistic and literary works
[6] Hughes J. (2012), *supra nota 4.* p. 1296
[7] Field C. (2015) *Negotiating for the United States*, The Making of the TRIPS agreement, p.132

2.2. Intellectual property law in the European Union

The European Union (EU) also aims to harmonize its intellectual property law so, that all EU citizens can enjoy similar rights and protection despite their residence country.[8] All EU member states are signatories of the Paris and Berne Conventions, in addition to being subject to WIPO legislation. IPR aims are also in accordance with the development of the internal market and the materialization of the four freedoms to all EU citizens. IPRs incentivize people to innovate and create, therefore providing more competition and new goods and services to the internal market. The internal market on its part allows for cross-border trade with harmonized laws, so that owners of intellectual property can enforce their rights efficiently, but also benefit from their ownership.[9] All four fields of intellectual property rights are regulated separately in the EU and continuously updated and reformed to better fit the requirements of the stakeholders.[10] Important legislation in the field of IPR in the EU includes the Directive (EU) 2015/2436, to "approximate the laws of the Member States relating to trade marks", which attempted to make the legislative field of trade marks cooperative and fluid in all of Europe.[11] Additionally, the Convention on the Grant of European Patents works as one of the harmonizing codes for the intellectual property field.[12] The field of designs is governed by the Council Regulation (EC) No. 6/2002 of 12 December 2001 on community designs. This regulation gives incentive on the protection and objectives of designs in the Member states.[13]

2.3. EU Copyright law

This paper will focus on copyright protection and specifically the protection of digital works. It will address the doctrine of exhaustion through the copyright protection angle. A copyright is a monopoly that the creator has over their artistic work, under which art, literary works, and audio pieces, that have been described in the Berne Convention, fall[14]. As codified in both international and national legislation, the author has exclusive right to copy and distribute the work and present it to the public in a manner that they desire, while being able to prohibit others from doing so. This

[8] Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society. *OJ L 167, 22.6.2001,*recital (3)
[9] European Parliament, (2023) *The Internal Market: General Principles*, Fact sheets on the European Union, retrieved from https://www.europarl.europa.eu/ftu/pdf/en/FTU_2.1.1.pdf
[10] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the committee of the regions, Making the most of EU's innovative potential, An intellectual action plan, COM/2020/760 final, 25.11.2020.
[11] Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks, *OJ C 327, 12.11.2013, p.42*
[12] Convention on the Grant of European Patents, European Patent convention of 5 October 1973
[13] Council Regulation (EC) No. 6/2002 of 12 December 2001 on Community Designs, *OJ L 3, 05.01.2002*
[14] Article 2(6), Berne Convention for the protection of artistic and literary works

right is applied upon the work from the moment of creation and will last in force until 70 years after the death of the creator in the EU.[15] As other IPRs, the copyright is an economic right, meaning that the exclusive right primarily monopolizes financial gain. IPRs are also fundamentally territorial, meaning that they are generally governed and established under national law.[16]

Unlike other intellectual property branches, the copyright additionally grants the creator or author a moral right to be publicly acknowledged as the author of the work. The moral right exists also after the first sale, meaning that the doctrine of exhaustion doesn't apply to it.[17] In other words this means that the author has the right to object any actions that could be of the nature to derogate the work or the reputation of the author.

EU has harmonized copyright laws, in addition to introducing a community exhaustion, for example in the Information Society Directive (2001/29/EC) (InfoSoc) and the Copyright Digital Single Market Directive (2019/790) (CDSM). The European Union legislative approach at copyright protection is rather separated, with a collection 13 directives and 2 regulations in force.[18] Recently, some directives, like the CDSM, have addressed challenges brought on by digitalization.[19]

An annual document produced by the EU Intellectual Property Office (EUIPO) stated in the 2022 publication that practically all copyright infringements happen in illegal streaming or downloading.[20] The Europe 2020 strategy was launched with a goal to establish a working Digital Single Market, which was further materialized in the CDSM Directive.[21] The directive directly addressed digitalization and the distraught EU legislation in recital (5) among others, where it states that amendments need to be made to correspond with the cross-border advancements made

[15] Directive 2006/116/EC of the European Parliament and of the Council of 12 December 2006 on the term of protection of copyright and certain related rights, *OJ L 372/12, 27.12.2006,* art. 1
[16] Prutzman L.D., Stenshoel E. (2013), *The Exhaustion Doctrine in the United States*, IP Exhaustion around the World: Differing Approaches and Consequences to the Reach of IP Protection beyond the first sale, p. 3
[17] Berne Convention, *supra nota 13,* Art. 6bis
[18] The European Commission, *The EU Copyright legislation*, retrieved from https://digital-strategy.ec.europa.eu/en/policies/copyright-legislation
[19] *Ibid.*
20 European Union Intellectual Property Office,(2022) *Eu Enforcement of intellectual property rights: results ar the EU border and in the EU internal market 2021*, European Commission, p.47
[21] European Commission, *Communication from the Commission, EUROPE 2020, A strategy for smart, sustainable and inclusive growth*, p. 12, retrieved from https://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf ,

with digital development.[22] The CDSM is mostly known for the amendment it made in the field of online service providers and how it prohibited "safe harbors" in EU actors. The "safe harbors" had posed another mentionable copyright issue because they had allowed for the service providers to be free of liability in copyright infringements happening on their format. The CDSM Article 17 imposed liability on the service providers and the member states fostering the provider companies.[23] This can be evaluated as a big step taken to accommodate development in copyrights, because the improvement in technology between the directives of 2001 and 2017 was very big. It ensured that copyright owners aren't subject to such blatant infringement online, but there are parties that work on catching the infringements in between.

2.4. IPR in the United States of America

The US IPR legislation is built by wide codification and precedents, that have a large influence on the functioning of the courts, due to the common law legal system. Most importantly, the United States (US) Constitution Article 1, Section 8 relies upon the congress the responsibility "*to the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries*". Moreover, the U.S. Code, under the chapter 19 on customs duties, establishes in §4341 how intellectual property is determined for legal purposes and for the benefit of trade.[24] The influence of precedents means that a US court can interpret codes in a broader sense, and it has in fact been evaluated that court decisions have amounted to broadening the scope of copyright protection.[25] Additionally, the US is also bound by international treaties like the TRIPS agreement, the WIPO convention and the Paris and Berne Conventions.

2.5. The U.S. Copyright Law

The copyright protection for US works is determined in the U.S. Code chapter 17 in sections 101-810.[26] Additionally, the DMCA plays an important role, especially in matters of digital copyright. The doctrine of exhaustion is referred to as the first sale rule in both US legislation and academic papers. In relation to the first sale rule, §106 determines the exclusive rights of a copyright holder,

[22] Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC, *OJ L 130, 17.5.2019,* recital (5)
[23] Directive (EU) 2019/790 *Supra nota 20*. Article 17
[24] 19 U.S. Code §4341, U.S. Code – Definition of intellectual property rights
[25] Bell T. (2018), *Intellectual privilege Copyright, common law and the common good*, Mercatus Center at George Mason University, p. 21
[26] 17 U.S.C. §§101-810, The U.S. Code – Title Copyright

addresses the limitations on exclusive rights and describes the doctrine of exhaustion in that context. Copyright matters are addressed both in district courts and in the U.S. Copyright Office, which is a branch for information and registration.[27] In principle the characteristics are very similar to the European doctrine ones and prescribe that the copyright owners rights end once the good has been sold. The central principle is that the doctrine enters into force after the first lawful sale and is limited to tangible objects.[28] The right to distribution is described similarly as in EU InfoSoc and the communication to public is shared to performing and displaying.[29]

The DMCA was drafted in 1998 in order to include aspects of online copyright protection into the scope of the WIPO treaties implementation.[30] It combines the WIPO copyright treaty and the WIPO Performances and Phonograms treaty. It focuses on enabling copyright owners to benefit from digitalization with a larger amount of recognition and regulation. A big advancement that the DMCA made was to protect internet service providers (ISP) in situations where their users infringed copyrights, via the "safe harbor" rule.[31] This wasn't an unlimited right in the US either, as ISPs would have to respond to clearance requests by copyright holders and therefore be indirectly responsible for the content that their users were sharing. The DMCA also introduced three other "safe harbors", but the ISP safe harbor is a central function that the DMCA is known for.

Even though the copyright is an exclusive right it isn't free of limitations. In addition to the doctrine of exhaustion, or the first sale rule, the US Copyright Act also determines outlines for fair use in §107. Fair use is considered to reach both reuse and reproduction for purposes like teaching and commenting or reporting.[32] Fair use has been central in some cases like the ReDigi v. Capitol one, where the fair use limitation determined the outcome of the case.

[27] The Digital Millennium Copyright Act (DMCA) of 1998, to amend title 17, United States Code, to implement the WCT and Performances and Phonograms Treaty, and for other purposes, p. 3
[28] 17 U.S.C. §106, The U.S. Code- Title Copyright
[29] Ellis, C. (2013). *Referring or linking to liability: does the digital millennium copyright act really mean what it says*. Information & Communications Technology Law*, 22(3),* p. 319
[30] The Digital Millennium Copyright Act, *supra nota 25*. Title 1
[31] Bello B, Aufderheide P, (2021), *The Public Interest and the Information Superhighway: The Digital Future Coalition (1996-2002) and the afterlife of the digital millennium copyright act*, Information & Culture, 21648034, Vol. 56, Issue
[32] Library of Congress. (1977). *The United States Copyright Act of 1976*. Washington, D.C.: United States Copyright Office, Library of Congress. Section 107

3. Doctrine of Exhaustion

The doctrine of exhaustion is a legal function that balances the interests of the consumer and the right holder in trade.[33] Additionally, in the EU the interest of the consumer also relates to the interest of the internal market, which is sought after. In principle, the rights of the copyright holder are exhausted after the first sale of their good and they can't control the secondary market of their good.[34] According to copyright laws dictated by WIPO, the copyright owner could, outside of this doctrine, bring legal proceedings against any legal or natural person who copies, presents or distributes their work without a license.[35] It is a general understanding that all transactions that are not sales fall outside the scope of the doctrine.[36]

The doctrine is a central function of the internal market, creating a harmony between the free movement of goods and IPR.[37] That way, it makes the monopoly that a copyright holder otherwise would possess weaker, so that it is subject to more competition. The doctrine is fundamentally territorial but appears also in international legislation and a large proportion of western trade countries have adopted international exhaustion.[38] In EU it applies by the concept of community exhaustion, which applies in all member states.[39] Cases revolving around the doctrine have been rising in both EU and US since the beginning of the 21st century.

This paper argues that the doctrine of exhaustion can be compressed into the following three prerequisites, which must have materialized, for the doctrine to apply.

1. *The author must be the one to willingly submit the tangible good into the market,*
2. *The good must be the original or a copy of the original, and*
3. *The good must be entering the market for the first time.*

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[33] Okutan, G. (2011). *Exhaustion of Intellectual Property Rights: A Non-Tariff Barrier to International Trade?* . Annales de la Faculté de Droit d'Istanbul , 30 (46), p. 111

[34] Kerber W (2016) Exhaustion of Digital Goods: an Economic Pespective. Zeitschrift fuer Geistiges Eigentum/Intellectual Property Journal 8(2), p. 2

35 World Intellectual Property Organization (WIPO) Copyright Treaty (WCT) of 1996, articles 6-8

[36] Costa, D. A. (2010-2011). *Vernor v. Autodesk: An Erosion of First Sale Rights*. Rutgers Law Record, p. 213

[37] Westkamp G., (2007), *Intellectual Property, Competition Rules and the Emerging internal market: some thoughts on the European exhaustion doctrine,* 11 Intellectual Property L. Rev. p. 311

[38] Tyagi, A. (2022). *Exhaustion of Rights and Parallel Importation in Trademarked Products*. International Journal of Law Management & Humanities, p. 1655

[39] Calboli I (2002), *Trademark Exhaustion in the European Union: Community-Wide Or International? The Saga Continues*, 6 Marq. Intellectual Property L. Rev. 47, p. 49

These three prerequisites have been formed based on the following legislation. The doctrine is legislated into the WIPO Copyright Treaty (WTC), where in Article 6(2) it is determined that the author exhausts their rights at distribution. From here it was also derived into the EU legislation, where it is visible in the InfoSoc and the CDSM. International reach can be acquired by the authority of the copyright owner, for example the right to import into the United States.[40]

The InfoSoc doctrine is aimed to harmonize "certain aspects of copyright and related rights in the information society".[41] The recital (28) is very relevant when evaluating for example the Tom Kabinet case, because it concerns the difference between the right of distribution and the right of communication to the public. The recitals (55) and (56) of the directive give additional information on the distribution right, primarily suggesting that authors are mindful of the possibilities that digitalization can offer for illegal distribution of their work and to include watermarks or other indicators of the sort to their work. It can be perceived as an attempt to move the responsibility of digital awareness from the legislator to the copyright owner. Watermarks are mostly issued onto copies to distinguish it as an original and discourage infringement.[42]

According to the article 4(2) of InfoSoc, the doctrine of exhaustion is only limited to the right of distribution to the public. By the definition of recital (28) of InfoSoc, the distribution right, and therefore the doctrine, is only applicable to tangible objects[43]. InfoSoc is divided into four main areas of transfer of property, and they are central in understanding the opinions that arose from Tom Kabinet. These areas are the right of reproduction, right of communication to the public, right of distribution and the right of making available to the public.[44] In principle this describes the extent of the monopoly of the copyright holder and their remedies against the violation of any of these rights. The areas are at the center of determining the applicability of the doctrine because it is focused on the physical medium of a product. As will be seen from the case laws in this research, the CJEU has been burdened by questions about the doctrine of exhaustion. It was hoped, by the legal community, that the Tom Kabinet case would have been able to give clearer objectives for the doctrine. [45]

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[40] Prutzman L.D., Stenshoel E. (2013), *The Exhaustion Doctrine in the United States*, IP Exhaustion around the World: Differing Approaches and Consequences to the Reach of IP Protection beyond the first sale, p. 11
[41] Directive 2001/29/EC, *supra nota 7.*
[42] Sanivarapu, P. V *et al.* (2022). *Digital Watermarking System for Copyright Protection and Authentication of Images Using Cryptographic Techniques.* Applied Sciences, *12*(17), p. 8724
[43] Directive 2001/29/EC, *supra nota 7.* recital (28)
[44] *Ibid*. Articles 2-4
[45] Mezei P. (2020) *The doctrine of exhaustion in limbo, critical remarks on the CJEU's Tom Kabinet ruling*, Jagiellonian University Intellectual Property Law Review, Issue 2/2020, chapter "2. The Tom Kabinet Case"

3.1.NUV & GAU v. Tom Kabinet Internet BV C-236/18

The Tom Kabinet Case C-236/18 caused reason for the CJEU to discuss about the difference between the right of distribution and the right of communication to the public.[46] During the case, the application of the doctrine of exhaustion was pondered upon, while simultaneously creating guidelines for how it would be considered in the future. In the proceedings, the CJEU took into account the Directive 2009/24/EC, which considers computer programs and theoretically allows for them to fall under the doctrine when the distribution has happened as described in InfoSoc.[47]

Tom Kabinet was an establishment in the Netherlands with a business idea to sell used digital books to their registered users.[48] Users could buy works for their own computer and later sell the used books back to the company. Generally, the doctrine of exhaustion would allow this kind of business in tangible items because the rights of the author are exhausted as they submit their work to the circulation of the internal market.[49] However, two associations, Nederlands uitgeversverbond (NUV) and Groep Algevene Uitgevers (GAU) that represent authors in the Netherlands decided to begin proceedings against Tom Kabinet for infringement of property rights. This was initiated by members of these associations who considered Tom Kabinet to be acting illegally with their property.[50]

The decision of the CJEU was to vote against Tom Kabinet, as they were in the position to give a preliminary ruling for a question launched by the district court of the Hague (rechtbank den Amsterdam).[51] The foremost question in the CJEU decision were how to determine a digital copy "used" and how can the company ensure that when a user sells their copy back to the company, that copy is deleted completely from their use. Additionally, Tom Kabinet would have to ensure their business so, that only one book is in circulation at once and no two users can loan it at the same time. This would mean that when the copy that Tom Kabinet would have originally legally acquired for the company, couldn't be sold to anyone else at the same time. If the registered user were to sell their copy back to the company and simultaneously keep the copy on their own

[46] Sganga, C. (2020), *Digital Exhaustion After Tom Kabinet: A nonexhausted debate*, EU Internet Law in the Digital Single Market, Springer, p.6
[47] Judgement of the Court (Grand Chamber), 19.12.2019, Tom Kabinet, C-263/18, ECLI:EU:C:2019:1111, chapter 13 under "European Union law"
[48] *Ibid*. chapter 21
[49] Directive 2001/29/EC, *supra nota 7.* Article 4
[50] Judgement of the Court, *supra nota 45.* chapter 20
[51] *Ibid*. chapter 22

hardware, they would then be in the possession of the copy practically for free, because they would have received compensation for selling. This would allow them "permanent use" as described by the CJEU and therefore place them in a position of unfair advantage to the original author. Lending in private and public matters has been separately codified in the Directive 2006/115/EC and isn't directly applicable to digital instances.[52] This directive determines that the author or creator also holds the right to allow their work to be lent or rented in both commercial and non-commercial purposes.

Central in the decision of the CJEU was that if the transfer of ownership is considered a sale, it shall fall under the description of distribution to the public, which further allows the use of the doctrine of exhaustion.[53] On the other hand communication to the public is not exhausted, which means that the original owner can prohibit others from doing so, according to the CJEU. In other words, if Tom Kabinets business could be considered a communication, NUV and GAU would be able to effectively prevent this. In the Tom Kabinet case the digital characteristic was evaluated to render the transaction a service, making it a communication and therefore the CJEU decided against Tom Kabinet. Additionally, following the 2012 UsedSoft case that will be introduced further the Netherlands District Court had allowed for the application of the doctrine to eBooks and therefore it isn't a surprise that Tom Kabinet considered that their business model was legitimate.[54] However, already before the legal proceedings in the Tom Kabinet case, the Court of Appeal of Amsterdam overruled the Netherlands District Court decision.

The right of communication to the public primarily includes that the author subjects the work to the public and that the receiver can decide for themselves how and when to use it.[55] The conflict in the Tom Kabinet case arises from the respondent argument that the eBooks were not available to the public, but actually only to subscribing members privately. However, the CJEU responded to this argument by saying that the communication to the public should be interpreted in a "broad sense" and that not all members of the public have to access it at the same time for it to apply. One attempt at clarifying the matter can be found in the Directive 2011/83/EC of the European

[52] Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (codified version), *OJ L 376, 27.12.2006*
[53] Judgement of the Court, *supra nota 45.* para. 71-72
[54] Rosati E. (2015) *Online copyright exhaustion in a post-Allposters world,* Journal of intellectual property, Volume 10, Issue 9, p.679
[55] Directive 2006/115/EC, *supra nota 50.* Art. 3

Parliament and of the Council of 25 October 2011 on consumer rights.[56] This directive attempted to increase the influence of consumer rights in the conversation, even though it didn't fully amount to changing the application of the doctrine. It states that the consumer should have a possibility to withdraw from the contract for as long as it is clear to them on how the digital content is operated and how the transfer of ownership is legally considered.[57] This however didn't manage to change the outcome of the Tom Kabinet case.

The decision of the CJEU was made partly based on Advocate General Szpunar's opinion, which stated that "the desire for consistency cannot on its own serve as a basis for judicial recognition of the rule of exhaustion"[58]. The basis of his arguments was, that however beneficial for the economy and competition could second-hand market of digital contents be, it cannot outweigh the benefit of the copyright holder.[59] In other words, the legislator can't simply follow the prerequisites of digitalization in matters that consider the rights of stakeholders, because this would automatically weaken their monopoly. This can also be seen in the recital (4) of the InfoSoc that the protection of creators and their continuous development is to be encouraged through law.[60] This is a controversial topic and the following case laws and opinions of scholars will demonstrate how the same principle is not followed in every case.

3.2.Deterioration of goods

The doctrine of exhaustion holds a prerequisite that to get a product in it's original condition and to ones' own undivided use, the consumer must buy it with the price determined by the creator and from a source determined by them.[61] The consumer is also entitled to sell the good as a second hand product, if they wish to part with it as already described by the doctrine. However, it is natural that in this situation the tangible item has already suffered some signs of use and this has caused it's value to decrease.[62] Additionally, novelty and topicality characteristics could also have lost value.[63] In other words, the product could belong to an old momentum or trend, therefore not

[56] Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011, p.64-88
[57] *Ibid.* recital (19-20)
[58] Opinion of Advocate General Szpunar, 10.09.2019, *NUV, GAU v. Tom Kabinet Internet BV et al.,* C-263/18, ECLI:EU:C:2019:1111
[59] *Ibid.*
[60] Directive 2006/115/EC, *supra nota 50.* Recital (4)
[61] Judgement of the Court, *supra nota 45.* para. 57
[62] Sganga C. (2020), *Digital Exhaustion After Tom Kabinet: A nonexhausted debate*, EU Internet Law in the Digital Single Market, Springer, p.2
[63] *Ibid.* p.2

having the original intended cultural or mental influence. Due to these reasons it can be concluded that second hand goods are often sold at a lower price than new versions.

When talking about digital copies of works however, deterioration isn't as prominent and, in most cases, non-existent.[64] In other words, the value of the product isn't decreasing and reselling the good can be in contradiction with the intellectual property rights of the creator. This is because the favorability of buying a new copy decreases if the same product can be bought "used" at a lower price.[65] This was an issue in the Tom Kabinet case, since it couldn't be determined what exactly made the books in question used. Additionally, since digital sales aren't specified in the doctrine of exhaustion, it was stated by the CJEU that it simply cannot apply. This gives reason to evaluate whether the doctrine of exhaustion is portraying its full purpose. The following case law analysis will evaluate the situations where the doctrine of exhaustion was contradictory. Additionally, the analysis will touch on the initial purpose of copyright, the protection of the expression, and how it can be fulfilled in digital content.

3.3. Second-hand market

Buying and selling of second-hand goods has grown exponentially in the 21st century. In research conducted by the Cross-Border Commerce Europe (CBC), it was found that in 2022 the market share of second-hand goods was already 10% of the whole EU market.[66] The same study predicted that the share could grow to be more than 14% in 2025, then being worth up to 120 billion euros. Additionally, CBC found that inflation has influenced people to utilize the lower costs that second hand markets can offer. Second-hand purchases are motivated by sustainability, cheaper prices and the interest in original copies of goods.[67] This along with the development of digital platforms has enabled new enterprises entering the market but also consumers being able to easily sell their possessions to other consumers online. This leads to the need for straightforward legislation which can be interpreted unanimously by the consumer, the trader and the MS courts. It can be argued that misleading or unclear legislation could lead to the poor functioning of the internal market.

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[64] Sganga C. (2020), *Digital Exhaustion After Tom Kabinet: A nonexhausted debate*, EU Internet Law in the Digital Single Market, Springer, p.2

[65] Kerber W. (2016) Exhaustion of Digital Goods: an Economic Pespective. Zeitschrift fuer Geistiges Eigentum/Intellectual Property Journal 8(2), p.7

[66] The Cross-Border Commerce Europe, *ReCommerce marketplaces are growing 20 times faster than the broader retail market,* retrieved from https://www.cbcommerce.eu/blog/2022/12/13/recommerce-marketplaces-are-growing-20-times-faster-than-the-broader-retail-market/

[67] Bae, Y., Choi, J., Gantumur, M., & Kim, N. (2022). *Technology-Based Strategies for Online Secondhand Platforms Promoting Sustainable Retailing.* Sustainability Journal,

Second hand markets and copyrights are complicated concepts to combine. Empirical research for this paper provided, that it's not a very researched area and many questions are left unanswered. For the market to be able to continue it's growth it would be vital to determine how a consumer should go about in distinguishing whether they have bought something or licensed it. Additionally, it can't be left upon the responsibility of the consumer to know when to respect the copyright holders expression, further than the general media literacy.

4. Case law influence

The following cases have been chosen for this research because they considered exhaustion from the perspective of digital works and software. The cases address the application and interpretation of the doctrine of exhaustion in cases where the subject is in some way intangible. By analyzing these cases, the research attempts to understand the doctrine of exhaustion better in a digital context and therefore seeing the practical influence. Tom Kabinet is the most significant case for this research, but the other cases highlight the obstacles that the doctrine of exhaustion has faced and can portray an example of the need for a digital exhaustion of sorts. As can be seen from the Tom Kabinet case, there is a possibility for a big market in digitally transferred copies.

4.1 UsedSoft GmbH v. Oracle International Corp C-128/11

A case vital to the topic of doctrine of exhaustion in a digital environment is the C-128/11 of UsedSoft GmbH v. Oracle International Corp (UsedSoft) from 2012. In short, this case focused on the right of reproduction and one of the main issues was reusing intangible property and the fulfilment of intellectual property rights. Oracle, as the right holder, sold licenses to software which were designed to be downloaded and further utilized by a set number of users.[68] The judgement explains that UsedSoft found a loophole in this, since the consumers who had fewer users on their own than described beforehand could sell the share of user space they had left and UsedSoft then sold it further.

In this case UsedSoft had expected the rights of the owner to have been exhausted in the first sale but Oracle opposed because the doctrine of exhaustion only mentions physical copies and the right to use was granted for an unlimited period.[69] The judgement of the court established that works that consist of software fall into the scope of the doctrine of exhaustion as long as the author has sold them with consent to begin with. This meant that it was decided for the favor of UsedSoft.

This decision and it's applicability to only software has since been the topic of multiple evaluations, because it heavily conflicts with the requirement of a tangible medium of the doctrine.[70] This has resulted in an ongoing situation where software can benefit from exhaustion, but other forms of intangible works can't. After the judgement in 2012, there was an understanding

[68] Judgement of the Court (Grand Chamber), 03.07.2012, UsedSoft, C-128/11, ECLI:EU:C:2012:407, paragraph 21
[69] Directive 2001/29/EC*, supra nota 7.* recital (28)
[70] Sganga, C. (2020), *Digital Exhaustion After Tom Kabinet: A non-exhausted debate*, EU Internet Law in the Digital Single Market, Springer

was that other cases could benefit from the same logic in deciding.[71] However, as can be seen from the Tom Kabinet case, the CJEU didn't follow on the footsteps of UsedSoft, but made a separation between software and other digital copies.

UsedSoft makes the approach of CJEU more complicated, because in this case the application of the doctrine of exhaustion was allowed for an intangible good. It must be acknowledged that there are slight differences in the subject matter, when compared to Tom Kabinet or Allposters but overall it indicates a rather distraught approach by the CJEU. As will be seen from the next case laws, the EU and US approaches vary, which also makes their comparison difficult and unreliable. It's also important to point out that CJEU does not make legislation with their decisions, but merely comparable case law, unlike the US courts, who have a larger influence in the form of precedents.[72]

In his opinion on UsedSoft Dr. Torremans emphasizes on the fact that while the EU and US codified approaches may be similar, there are fundamental differences on what is considered in decision making.[73] In his paper "The future implications of the UsedSoft decision" he claims that the EU legislation focuses more on the functioning of the internal market and less on of the copyright and this is seen especially when compared to the US legislation. Torremans argues that technically the UsedSoft decision has potential to be used in all digital doctrine of exhaustion matters. However, he also explains, that the question of the essential function and specific subject matter is also going to arise. With this he means that the essential function of a copyright is to renumerate the creator accordingly for their work and upkeep the interest for creating in relation to the specific subject matter.[74] Additionally, Torremans states that as important the essential function is to the stakeholder, it is equally, or even more important to the functioning of the internal market and that's why the EU works towards it in legislation. This can also explain, why the UsedSoft judgement is so rare among other decisions in the digital doctrine of exhaustion conversation. However, Torremans concludes his arguments by stating that even after critically evaluating the UsedSoft case in both a technical and a policy manner, there is not one factor that could be used as a determining factor in such cases in the future. Therefore, UsedSoft can't be said to have cleared the path for digital exhaustion, but simultaneously didn't completely prevent it.

[71] Torremans P.L.C. (2014) *The future implications of the UsedSoft decision*, CREATe Working paper 2014/2, University of Nottingham School of Law, p.7
[72] Sganga, C. (2020), *Digital Exhaustion After Tom Kabinet: A non-exhausted debate*, EU Internet Law in the Digital Single Market, Springer, p.7
[73] Torremans P.L.C. (2014), *supra nota 69.* p.5
[74] *Ibid.* p.8

4.2 Vernor v. Autodesk Inc. No 09-35969

Similarly to the CJEU in Tom Kabinet, the United States Court of Appeals for the Ninth Circuit judged on the difference between sale and license in regard to software in the case Vernor v. Autodesk Inc. 621 F.3d 1102. (Autodesk). The case arose after Autodesk Inc. found out Vernor was selling software on eBay that had originally been acquired from Autodesk.[75] The claim against Vernor was that they had no authority to make a resale due to the original contract being a license agreement.[76] Additionally, Vernor had not bought the software from the original owner and copyright holder but had initially bought them second hand. Based on the original contract being a license agreement, it would seem obvious that the court could not rule against Autodesk.

However, the district court decided that Vernor had authority to sell the software second hand due to the doctrine of exhaustion. Autodesk appealed this decision on the claim that they make solely software license agreements (SLA). It was further evaluated by a higher court and there ruled for the benefit of Autodesk, because of these licenses. The case was analyzed by Judge Callahan, who dissected the arguments of both sides and highlighted the influence of a license and personal property.[77] In simple terms it was concluded that ownership was not transferred and therefore the doctrine was excluded. Surprisingly, the higher court decision was actually the unusual one. The market of second hand digital items had flourished in the US for decades, and the Autodesk case amounted to drastically change the course of that development.[78] It has been argued to broaden the stakeholders monopoly to such an extent that they could possibly benefit from it in an unfair way.[79] In other words, it is rather easy for the copyright holder to eliminate the possibility of the doctrine of exhaustion, simultaneously preventing the second-hand market for their product. The question that arises from this conclusion is whether there will eventually be any need for a doctrine of exhaustion regimen, because all products could simply be masked behind a curtain of terms and conditions which determine a rent or a license and therefore diminish reselling.

This case was rather straight forward compared to the other cases portrayed in this research. However, it shows that in addition to the CJEU, the US courts also approach the digital content by

[75]Decision of the United States Court of Appeals for the ninth circuit, 20.05.2008, Autodesk, No. 09-35969
[76] Costa, D. A. (2010-2011). *Vernor v. Autodesk: An Erosion of First Sale Rights*. Rutgers Law Record, p.*221*
[77] Opinion by Judge Callahan for the *No. 09-35969 D.C. No. 2:07-cv-01189-RAJ Case Vernor v. Autodesk*, United States Court of Appeals for the Ninth Circuit, 13886
[78] Costa, D. A. *supra nota 74. p.224*
[79]*Ibid. p.224*

evaluating that the stakeholders' rights are a better investment than catering to the possible obstacles of digitalization. In Autodesk, it was central to distinguish the difference between sale and license, which remains to be an issue despite this decision, as it considered software and not strictly digital copies. The court argued that they made the judgement on basis of precedent, which leads to the conclusion that the US would, similarly to the EU, only overcome this dilemma with a legal reform.[80]

4.3 Art & Allposters v Stichting Pictoright C-419/13

The Allposters case poses an important role for the conversation about digital exhaustion. It was one of the first cases to address the significance of the tangibility of an item in reference to exhaustion.[81] It questioned whether copyright laws intend to protect the tangible medium that is transferred, or the originality and expression of the actual content.[82] This is important in the conversation about digital contents as well, because even though they are not portrayed on a tangible medium, the protection should still be aimed at the actual expression that the author produced.[83] Because the case was the first to arise after UsedSoft and simultaneously be ruled in a different way, it raised questions in national courts, for example the German Federal Court of Justice, who questioned what exactly makes a copy or software fall under the scope of exhaustion.[84] In other words, the application of the doctrine of exhaustion to intangible goods managed to get even more complicated following the case.

The case was launched by the plaintiff Stichting Pictoright (Pictoright) against the respondent Art &Allposters (Allposters) in 2010.[85] According to the judgement Pictoright is an artist society and did this in their competence of protecting the rights of their members, who were copyright holders or their next of kin. Allposters launched a line of products, which Pictoright considered to infringe the rights of their stakeholders.[86] Pictoright had earlier allowed the sale of most of Allposters products, because they competed in a different market than the original canvas paintings. However, Allposters launched a product where the original posters were moved onto a canvas board by the

[80] Costa, D. A. (2010-2011). *Vernor v. Autodesk: An Erosion of First Sale Rights*. Rutgers Law Record*, p.226*
[81] Sganga, C. (2020), *Digital Exhaustion After Tom Kabinet: A nonexhausted debate*, EU Internet Law in the Digital Single Market, Springer
[82] Judgement of the Court (Fourth Chamber), 22.01.2015, Art &Allposters, C-419/13, ECLI:EU:C:2015:27, chapter 33
[83] Articles 2 of the WIPO copyright treaty, retrieved from https://www.wipo.int/wipolex/en/text/295157
[84] Rosati E. (2015) *Online copyright exhaustion in a post-Allposters world,* Journal of intellectual property, Volume10, Issue 9, p.678
[85] Judgement of the Court, *supra nota 80.* chapters 14-16
[86] *Ibid.* chapter 16

means of a technical process. Pictoright considered this an infringement of the rights issued to Allposters, because the canvas frame could possibly bring new economic possibilities. Therefore they argued that the new concept would have required a new contract to be able to continue. Allposters disagreed and referred to the essential meaning of the copyright and the *corpus mysticum*, which stands for the intangible creation.[87] They argued that the intangible creation should be the part that is protected under copyright law and therefore changing the medium wouldn't make a difference. This was their attempt at avoiding responsibility in reproduction and copying outside of their contract. Advocate General Villalón disagreed with these arguments by pointing that the copyright to the intangible creation is not transferred in the sale in any case and therefore corpus mysticum can't be applied in a case of exhaustion. In other words it means that the resale is of the good, but the copyright remains with the creator in both tangible and intangible cases.

The case was first handled in a district court in the Netherlands, who decided to dismiss the case. After Pictorights appeal to a higher court, the question was referred to the CJEU. As the higher court made the referral, they also voiced the hope about resolving the question completely and therefore taking a necessary step in the clarity of the InfoSoc directive.[88] The court understood that the court of appeals was asking whether the doctrine of exhaustion would be applicable in cases of reproduction where the original product was transferred onto another medium. The court considered whether the changes to the product where substantial and would therefore not fall under exhaustion, because in principle the doctrine is intended to apply to the exact product that has already been sold.[89] The court ruled that the doctrine will not apply, if the subject of copyright has been transferred from the original medium to another and is being sold, because it is then considered a new product all together. This opinion would however suggest that there would be a possibility for a digital exhaustion, in the situation where the product is identical.

4.4 ReDigi v. Capitol Records LLC. No. 16-2321

The ReDigi case poses a good ground for comparison with the Tom Kabinet case. Capitol Records LLC, Capitol Christian Music Group and Virgin Records IR Holdings brought action against

[87] Opinion of Advocate General Villalón, 11.09.2014, *Art &Allposters v. Stichting Pictoright,* C-419/13, ECLI:EU:C:2015:27, chapter 37
[88] *Ibid.* chapter 1
[89] *Ibid. chapter 4*

ReDigi in 2013, when it was found that ReDigi was selling used digital music files to its users.[90] Capitol Records argued that this business infringed on the rights they owned over these musical pieces. ReDigi was also publicly pitted against UsedSoft, because both cases happened at roughly the same time but had different outcomes.

ReDigi argued that they don't infringe on the copyrights on the basis of the first sale doctrine.[91] They conducted their business while utilizing a technology that ensured that the consumer bought the musical piece in a legal manner. Additionally the technology allowed the file that the music was on to only exist on one computer at a time, which was an attempt to avoid reproducing the files. Tom Kabinet did not utilize such a technology and it remains to be speculated whether their business could have been perceived legal had they done so. ReDigi argued that once they had legally bought the first copy, the owners' rights were exhausted and they were allowed to offer such trade. They also claimed that their business could allow for a private collection of second-hand priced music, that couldn't be copied or shared.[92]

When the court evaluated the fair use principle and its applicability, they found that ReDigi's business could not be considered to fall under fair use. This outcome was based primarily on the Capitol Records argument that the objective of clients buying from ReDigi was solely to get the same music for a lower price. Therefore, the case was decided in favor of Capitol Records. Again, this calls for the evaluation of the deterioration of goods and the usual objectives people have for buying second hand goods. The court argued that by selling digital copies, it competes in the same legitimate market as the plaintiff and therefore benefits from second hand use in an unfair way. At the decision of this case, the court voiced an opinion that the US legislation is not prepared to address digital copies, because the technical development couldn't have been foreseen at the time of codification.[93] The court also argued, that even though the technical means of ReDigi allowed for the file to only exist on one computer at a time, it was still considered a reproduction, which was not allowed without the permission of the copyright holder. This allows for a comparison with the Tom Kabinet case, because copying is always considered an infringement in the situation of a copyright. A similar issue doesn't arise in physical books or CDs, because there is only one

[90] Decision of the United States Court of Appeals for the second circuit, 12.12.2018, ReDigi, No. 16-2321, chapter 23
[91] *Ibid.* p.17
[92] Serra, T. (2013). Rebalancing at resale: redigi, royalties, and the digital secondary market. Boston University Law Review, 93(5), p.1800
[93] Sganga, C. (2020), *Digital Exhaustion After Tom Kabinet: A nonexhausted debate*, EU Internet Law in the Digital Single Market, Springer,

particular copy. On the other hand, a digital transfer of a file will always automatically produce a copy, which hasn't yet been tackled by digital resale companies.[94]

The doctrine of exhaustion question was left open, which means that similarly to the EU, the US does not have a conclusive procedure in order to tackle similar cases in the future. The US legislation isn't completely strict on the matter of applying the doctrine of exhaustion to digital contents, but the cases indicate a direction towards only tangible exhaustion.[95] The ReDigi case could have amounted to an example in this matter, but unfortunately the judgement sparsely addressed the doctrine and concentrated more on the fair use principle. Before the case it was even evaluated that there would be a possibility to enable digital exhaustion through the means of a fair use claim, but the ReDigi case managed to push that development into the future once again.[96] Additionally, similarly to Autodesk, the ReDigi judgement argued that the court could not have acted in a different way in the proceedings due to a precedent and therefore the Congress would be responsible for any next steps.[97]

The rallying point in all five cases is the interest to broaden the market and promote the reuse of products. In the current economic atmosphere it does seem reasonable to favor used products, but in digital contents the outcome can prove to be more difficult. On one hand the rightful owners of copyrights have invested time and expertise into goods, which they deserve compensation for. On the other, the consumer should also be able to trust in their right of reselling once their purchase an item. These cases all technically considered companies, and that's principally why the plaintiffs initially caught up on the infringements. What is more sparsely researched is whether natural persons are faced with these obstacles, but as the setting is always between the copyright holder and the consumer, legal persons aren't excluded from the conversation either.

The doctrine of exhaustion has proven to be a more complicated provision, especially in cases of digital content. Opinions of scholars, advocate generals and judges have all concluded on one matter; the doctrine of exhaustion in a digitalized environment is difficult to decipher for all parties. The UsedSoft case is the only one to be decided in favor of the respondent, which indicates

[94] Serra, T. (2013). Rebalancing at resale: redigi, royalties, and the digital secondary market. Boston University Law Review, 93(5), p.1764
[95] Rosati E. (2015) *Online copyright exhaustion in a post-Allposters world,* Journal of intellectual property, Volume 10, Issue 9, p.682
[96] Serra, T. (2013), s*upra nota 92.* p.1765
[97] Rosati E. (2015), *supra nota 93.* p.679

that business models relying on a resale of digital copies aren't the most favorable ones. However, the future looks a bit brighter already. All these US cases have called for a change to the legislature, which means that there is an interest to broaden the second-hand market at some point. As some of the largest technology companies have been scouting the field, the Congress is under some pressure to update the doctrine.[98] Both EU and US legislators are faced with the evaluation of the digital exhaustion.

[98] Serra, T. (2013). Rebalancing at resale: redigi, royalties, and the digital secondary market. Boston University Law Review, 93(5), p.1800

5. Digital Exhaustion

The concept of digital exhaustion has been raised in legal conversation, due to an increasing amount of digital trade. As mentioned above, the doctrine of exhaustion is only aimed at the rights surrounding tangible items, that the creator has subjected to the market. Digital exhaustion suggests the application of the doctrine of exhaustion in situations of completely digital content, therefore also intangible content.[99] InfoSoc in the EU doesn't allow for the use in other than tangible goods. As mentioned above, the US Code is more flexible on the matter, but the case laws have despite been conflicting. The interpretation of InfoSoc by CJEU, especially in the Tom Kabinet case, has been somewhat criticized, because it was seen as having had potential to change the direction of digital good matters.[100] CJEU's judgement will now only allow for a literal interpretation of tangibility clause in the doctrine of exhaustion.[101] In other words, there can be no change in the matter before a legal reform, similarly to the US situation.

Between 2013 and 2014 the EU initiated a consultation for the renewal of copyright legislation, where the doctrine of exhaustion was addressed. It questioned whether digital content should be included and wanted to gather the member states' opinions on the matter.[102] The European Commission responded by promising that the digital issues would be addressed in the CDSM, but as it turned out once the directive stepped into force, it did not change the doctrine in any way. Currently the InfoSoc directive is vague when considered the right of communication to the public and the right of distribution to the public, in addition to not being able to offer a direct answer to the difference between a tangible and intangible good.[103]

In the US on the other hand, it has been more common to rely on licenses than to approach exhaustion with a completely new regimen.[104] In principle this allows the copyright holder to ensure that their rights won't be infringed, but simultaneously leaves the consumer in a worse situation. The problem remains, that a presumed sale could eventually be considered a license and

[99] Sganga, C. (2020), *Digital Exhaustion After Tom Kabinet: A nonexhausted debate*, In T.Synodinou et al (eds.), EU Internet Law in the Digital Single Market, Springer 2021, p. 19
[100] Mezei P. (2020) *The doctrine of exhaustion in limbo, critical remarks on the CJEU's Tom Kabinet ruling*, Jagiellonian University Intellectual Property Law Review, Issue 2/2020, p. 135
[101] Sganga C. (2020), *supra nota 97.* p. 20
[102] Rosati E. (2015) *Online copyright exhaustion in a post-Allposters world,* Journal of intellectual property 10(9) p. 676
[103] Sganga C. (2020), *supra nota 97.* p. 28
[104] Mezei, P. (2018). *Digital Exhaustion in the European Union and the US.* In Copyright Exhaustion: Law and Policy in the United States and the European Union, Cambridge Intellectual Property and Information Law,p. 96

therefore it's more convenient for both parties to agree to the terms of a license from the beginning. A uniform approach could be justified, but similarly to the EU, the courts have been giving out conflicting decisions for the last two decades.

5.1 Alternative prospects

Some opinions of scholar's state that there is no way of pursuing the original objectives of the doctrine through a digital approach, when others claim that there is no future in the present doctrine. One of the central questions that has come up during this research is the function of the copyright to protect the expression rather than the physical medium. Especially in the EU, this has been a source of uncertainty, because it seems that copyright owners along with their representatives disagree with the EU approach.[105] Despite reforms, the EU copyright law hasn't seen mentionable changes since the InfoSoc directive already in 2001.

The reluctance to change could be due to many reasons. As an example Dr. Simone Schroff argues in her article "The purpose of copyright – moving beyond the theory" that the framing of an issue has a large influence in the way it could be included into policy negotiations.[106] She explains that when something, like copyrights, has been framed in a certain way and light for a long period in history, it might seem impossible to change, without influencing the range of laws, rights and politics around it. It could be argued that the concept of digital exhaustion would change the understanding of copyrights rather fundamentally. Lack of deterioration, worldwide reach and unlimited use are some of the main obstacles for the stakeholder. However, Schroff implies that copyright holders would generally be more interested in a change in the codification and therefore disagree with the path that EU is currently taking. On the other hand in "Digital Exhaustion after Tom Kabinet" Caterina Sganga argues that the biggest obstacle is the economic aspect of the debated digital exhaustion.[107] In her article she states that copyright holders vocally oppose digital exhaustion and agree with the EU in protecting the stakeholders' rights.

For an alternative route, Poorna Mysoor implies at the adaptation of the "implied license" practice in the EU, in the paper "Exhaustion, Non-Exhaustion and Implied License". Mysoor explains that

[105] Schroff S. (2021) *The purpose of copyright – moving beyond the theory,* Journal of intellectual property law & practice 16(11), p. 1263
[106] *Ibid.*
[107] Sganga, C. (2020), *Digital Exhaustion After Tom Kabinet: A nonexhausted debate*, In T.Synodinou et al (eds.), EU Internet Law in the Digital Single Market, Springer 2021

some copyright holders might not consider any need for a digital exhaustion regimen, because of the influence of the implied license. In principle it means that in certain situations both parties would generally be in the understanding that the form of the transfer is a license instead of a sale, which then determines terms for the rest of the cooperation.[108] It can be argued, that a license is a good way for the stakeholder to stretch out their monetary gain, without losing the power of a monopoly. However, the implied license is not a simple concept when connected with digital copies. Not only does the contract have to imply the right of distribution, but also the right of reproduction, because of the technical process of copying that files go through when moved from one computer to another.[109] Therefore, such a licensing regime is possible, but doesn't exactly reduce the amount of work for the EU legislature.

Based on the findings of this paper so far it could be argued that the consumer and the internal market are in the position to benefit the most from digital exhaustion. The EU internal market could benefit from better and broader competition, which would transfer onto consumers. It could also increase variety and lower prices, which obviously benefits the consumer. Thus far it has been considered a right of the consumer to rely upon the resale market if they wish and to have no unfounded restrictions to their ownership as a premise.[110] The possibility of reselling has been included in the original price, which could also have been due to the stakeholder not having an effective way of preventing it.

Coincidentally, it could be argued that the stakeholder doesn't have as much to gain. The copyright holder could also have to increase the technical attention they have to put into their work, for example in the form of watermarks or added license contracts. On the other hand a clear digital exhaustion regimen could decrease the amount of work that the copyright holder has to do in order to protect their rights. Initially, the copyright holder is personally in charge of holding the person committing the infringement accountable.[111] This can also be seen from the UsedSoft case, where UsedSoft didn't have to invest into product development, marketing, and legal protection, unlike Oracle. This, combined with the factor that both companies could compete in the same legitimate market, meant that Oracle was left in a much worse economic situation.

[108] Mysoor P. (2018) *Exhaustion, non-exhaustion and Implied License,* International Review of Intellectual Property and Competition Law, Vol. 49 (6), p. 667
[109] *Ibid.* p. 670
[110] Costa, D. A. (2010-2011). *Vernor v. Autodesk: An Erosion of First Sale Rights*. Rutgers Law Record*, p.226*
[111] Articles 6-8 of the WIPO copyright treaty, retrieved from https://www.wipo.int/wipolex/en/text/295157

It can therefore be argued that the legislation is currently not transparent or feasible for national courts to decipher. Even though the current copyright protection attempts to cradle the European Internal Market, the long-term influence of not providing similar possibilities for businesses relying on digital contents could be harmful. Additionally, EU member states are not conclusive on the matter either. There are a handful of states that prefer to strictly limit the doctrine of exhaustion to tangible objects and therefore upkeep the copyright objectives created before the time of digitalization.[112] After the UsedSoft and Tom Kabinet cases' conflicting decisions, a resale of a digital good could either be allowed based on the first transaction being a sale, or illegal when the transaction is considered a rent or a license.[113]

At some point the legal community will be faced with the question of who does the doctrine of exhaustion benefit when only applying to tangible objects? It could be possible in the future that there are no tangible copies of copyrighted works and all experiences like reading or artwork are portrayed through a digital medium. As the doctrine of exhaustion attempts to improve the position of the consumer in relation to the copyright holder's monopoly, this kind of a scenario could decrease the value of copyright protected works by a large amount in the consumers eyes. Additionally, future research must address the influence of Artificial Intelligence. Possible issues in the exhaustion matter when considered with AI could be the ownership of the original information, the tangibility of the goods and the path of transfer.

5.2 Tangible v. intangible copyright

In both Art &Allposters and Tom Kabinet cases the tangibility of the goods was a central question. Intangible items can not fall under the doctrine, because of their medium. This could create a controversy since the copyright is intended to protect the expression and only secondarily the medium that it is on.[114] This can be seen from other copyright characteristics, like the fact that other creators can version and create satire from an original piece if they provide an original expression to add to it. What makes the topic even more complicated, is that even computer programs can be divided into tangible and intangible. The question is therefore not about if something can be physically sensed, but about the way it transfers from hardware onto software and the memories of the devices being used. As seen in the case law of ReDigi and Tom Kabinet,

[112] Mezei, P. (2018). *Digital Exhaustion in the European Union and the US*. In Copyright Exhaustion: Law and Policy in the United States and the European Union, Cambridge Intellectual Property and Information Law, p.96
[113] Torremans P.L.C. (2014) *The future implications of the UsedSoft decision*, CREATe Working paper 2014/2, University of Nottingham School of Law, p.8
[114] Article 2(6), Berne Convention of the protection of literary and artistic works

these technical factors can make a big difference in the judgement of the case and the decision of the legitimacy of a business.
In the Tom Kabinet proceedings, CJEU did address the difference of tangible and intangible goods and how the UsedSoft could be considered *lex specialis* in that area, because it provides for tangible and intangible to be considered the same in computer programs.[115] However, the CJEU decided that eBooks are not computer programs and therefore it would not be according to the purpose of the InfoSoc to give a decision similar to the UsedSoft.

Problematically, nothing that would define eBooks or music recordings in the forms that exist in the Tom Kabinet and ReDigi cases is mentioned in current legislation. Software and "computer programs" are mentioned in the WCT, EU legislation and US legislation, but the technical form of eBooks doesn't fit the category. This comes down to both technical and contractual matters. As mentioned above, increasingly often software is licensed out to users, making the reselling automatically an infringement of the contract in force.[116] This wasn't the case in either Tom Kabinet or ReDigi, where the original copy had been legally acquired. Selling a physical copy of a book or a CD would automatically be considered a distribution to the public, because the medium allows for the consumer to use the product for an unlimited amount of time. Moreover, this brings up the distinction between communication to the public and distribution to the public, as seen in Tom Kabinet. An intangible copy can offer so many benefits in functionality, effectivity and monetary value that it fundamentally has a competitive advance.[117]

[115] Judgement of the Court (Grand Chamber), 19.12.2019, Tom Kabinet, C-263/18, ECLI:EU:C:2019:1111, para 55
[116] Fallenböck M. (2003), *On the technical protection of copyright: The digital millennium copyright act, the European community copyright directive and their anticircumvention provisions,* International Journal of Communications Law and Policy,
[117] Judgement of the Court (Grand Chamber), 19.12.2019, Tom Kabinet, C-263/18, ECLI:EU:C:2019:1111, para 58

6. Conclusion

The aim of this paper was to find whether there are shortcomings in the EU legislation when it considers the interpretation of the doctrine of exhaustion for digital contents. It proceeded to conclude on the matter through a case law analysis along with a comparative analysis with the US respective legislation. This paper addressed scholarly opinions in favor and against of the developing of a digital exhaustion. The research followed the course of the following two questions. 1) How could the doctrine of exhaustion be applied to copyrights of digital goods and what would this require from legislators and stakeholders? 2) What are the prospects for a concept of digital exhaustion?

To respond to the first question, this paper found that the doctrine of exhaustion could be applied to digital contents, if it could be ensured that any technical or factual process in the transfer couldn't amount to a copyright infringement. Presently the obstacles are the right of reproduction and the right of communication to the public, which don't fall under the doctrine of exhaustion. The reproduction is materialized in the process of copying a file from one computer to another in the process of transferring it in the sale. Communication on the other hand could be materialized in sharing the good to the public for an unlimited amount of time. These results are in contradiction with the rights of the stakeholder, which entail that the copyright owner can determine for themselves who can reproduce or communicate their good. In addition, the lack of deterioration in digital contents and competing in the same legitimate market can potentially worsen the stakeholders right to a monopoly.

The research found multiple issues to the prospect of a digital exhaustion regimen. Therefore, the answer to the second research question is that the prospects look poor and the future stagnant. The reason for this is that digital exhaustion would require rather big sacrifices on both the stakeholders and the legislators' side, without offering concrete benefits at least immediately. The legislative reform is hindered by the understanding that the general objectives of copyright protection are still being fulfilled in the doctrine of exhaustion. Courts have effectively harvested any attempts to economically benefit from the second-hand sale of digital files, therefore holding the right of the stakeholder in higher value than the consumer or the internal market. This research argues that the expense of such a reform would presently be too big when compared to the amount of additional work and loss of profit it could simultaneously imply on copyright holders. Despite, this paper argues that a reform will be necessary in the near future, to ensure transparency and prepare for future technological advances.

This paper acknowledges, that the digital copyright field will be faced with both obstacles and possibilities along with digitalization and therefore suggests directions for future research. Firstly, the possibility of implied licenses and other new license contracts should be researched to find out whether it could balance the interest of the consumer and the stakeholder sufficiently. Secondly, the influence of Artificial Intelligence on ownership and completely digitally produced content should be researched in relation to the doctrine of exhaustion. Thirdly, the necessity and profitability of the second-hand market should be evaluated. In tangible items the second-hand market has proven to present a sustainable and affordable option for the primary market, but this might not be a necessary development in the digital field. Finally, the technical possibilities of transferring copies without actually creating a new copy should be researched to possibly be able to avoid infringing the reproduction argument. Digitalization demands reaction in order for the EU copyright objectives to be fulfilled.

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APPENDICES

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